

Message Text

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PAGE 01 CAIRO 03638 011911Z

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 IO-13 CIAE-00 DODE-00 PM-04 H-01

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-08 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 AGRE-00

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TO SECSTATE WASHDC 2286

INFO AMEMBASSY BONN

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SUBJECT: DECLINE IN EGYPTIAN TRADE WITH EASTERN EUROPE/USSR

REF: CAIRO A16, 1/31/77

1. RECENT CENTRAL BANK BALANCE OF PAYMENTS FIGURES FOR 1976 INDICATE TREND IN EGYPT'S TRADING PATTERN AWAY FROM PREVIOUS HEAVY CONCENTRATION OF EXPORTS TO USSR AND EASTERN BLOC (REFAIR). EXPORT RECEIPTS IN FREE CURRENCIES, ACCORDING TO THIS DATA, ROSE DURING 1976 FROM LE 56.2 MILLION EQUIVALENT IN FIRST QUARTER TO LE 82.7 MILLION IN FINAL QUARTER. RECEIPTS THROUGH PAYMENT AGREEMENTS DECLINED FROM LE 96 MILLION IN FIRST QUARTER TO LE 59.7 MILLION IN LAST QUARTER 1976. TOTAL FREE CURRENCY RECEIPTS IN 1976 WERE LE 296.9 MILLION, COMPARED WITH LE 319.5 MILLION FROM PAYMENTS AGREEMENTS. (THERE ARE NO COUNTRY BREAKDOWNS AVAILABE IN CENTRAL BANK DATA.)

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PAGE 02 CAIRO 03638 011911Z

2. IN 1975 RECEIPTS FROM FREE CURRENCY EXPORTS WERE ONLY LE 160 MILLION, COMPARED TO LE 440 MILLION FROM PAYMENTS AGREEMENTS. THAT WAS A SLIGHT EROSION OF THE 1974 POSITION WHEN CENTRAL BANK REPORTED LE 241 MILLION CAME FROM FREE CURRENCY MARKETS COMPARED TO LE 410 MILLION FROM AGREEMENT COUNTRIES, BUT TREND OVER LAST FEW YEARS IS

STILL EVIDENT.

5. RECENT DISCUSSION WITH TRADE UNDERSECRETARY SHUKRI NAHAL INDICATES THIS IS RESULT OF CONSCIOUS POLICY SHIFT DESIGNED TO MAXIMIZE HARD CURRENCY REVENUE FROM EGYPT'S EXPORTS BY CONVERTING PAYMENTS AGREEMENTS TO STANDARD BOP TRANSACTIONS AND BY REDUCING FLOW OF GOODS WHICH CAN BE SOLD IN FREE CURRENCY MARKETS TO EASTERN BLOC. FOLLOWING IS SEPARATE SET OF EGYPTIAN TRADE STATISTICS SUPPLIED BY CENTRAL AGENCY FOR MOBILIZATION AND STATISTICS COMPILED BY YEAR AND COUNTRY, WHICH TEND TO SUPPORT INDICATIONS FROM CENTRAL BANK DATA AND WHICH SHOW SOME SUCCESS IS BEING OBTAINED IN POLICY SHIFT DESCRIBED BY NAHAL.

VALUE OF EXPORTS

	1974	1975	1976
	(JAN - SEPT.)	(JAN - JUNE)	
TO EASTERN BLOC	LE 329,834,000	LE 334,187,000	LE 106,916,000
	(56 PERCENT OF TOTAL)	(77 PERCENT OF TOTAL)	(59 PERCENT OF TOTAL)
TO WESTERN COUNTRIES	LE 117,799,000	L3 49,110,000	LE 79,509,000
	(20 PERCENT OF TOTAL)	(11 PERCENT OF TOTAL)	(25 PERCENT OF TOTAL)

(EASTERN BLOC INCLUDES USSR, GDR, BULGARIA, POLAND, HUNGARY, CZECHOSLOVAKIA, ROMANIA, YUGOSLAVIA, ALBANIA, CHINA AND NORTH KOREA; WESTERN GROUP INCLUDES AUSTRIA, BELGIUM, DENMARK, FRANCE, FRG, HOLLAND, ITALY, NORWAY, SPAIN, SWEDEN, SWITZERLAND AND UK; EXPORTS TO U.S.

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PAGE 03 CAIRO 03638 011911Z

ARE MINIMAL.

3. COMMENT: NOTE THAT MAJOR EASTERN BLOC TRADING PARTNERS (USSR, GDR, CZECHOSLOVAKIA, PRC, NORTH KOREA) STILL MAINTAIN PAYMENTS AGREEMENTS WITH EGYPT, UNDER WHICH TERMS OF TRADE IN RECENT YEARS HAVE BENEFITTED BLOC. WE CAN EXPECT EGYPTIANS INCREASINGLY TO PUSH THESE COUNTRIES DURING THEIR ANNUAL NEGOTIATIONS A) TO BALANCE OFF EGYPT'S EXPORTS, WHICH COULD EARN HARD CURRENCY, AGAINST IMPORTS WHICH WOULD HAVE TO BE BOUGHT WITH HARD CURRENCY IN WESTERN MARKETS, OR B) TO ACCEPT MORE "NON-TRADITIONAL" GOODS FROM EGYPT, GOODS FOR WHICH THERE IS NO REAL MARKET IN THE WEST. EITHER CASE WILL MEAN A REVERSAL OF CURRENT BENEFIT WHICH EASTERN BLOC RECEIVES AS RESULT OF ITS TRADING ARRANGEMENTS WITH EGYPT.

4. THIS TREND OF INCREASED CONVERTIBLE FX EARNINGS, IF CONTINUED, COULD HAVE SIGNIFICANT POSITIVE EFFECT ON EGYPTIAN EFFORTS TO MAKE MAJOR ECONOMIC REFORMS

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